

# Congress Should Pass Tax Provisions that Support Economic Growth and Real Estate Finance

## MBA Recommends

MBA encourages Congress to enact tax laws that support long-term economic growth, which is the foundation of strong residential and commercial real estate markets. The commercial, multifamily and single-family real estate markets are important to a robust U.S. economy, and tax policies should support this industry, or at least do no harm. Tax provisions must be stable, consistent and predictable over time, so that individuals and companies can make financial decisions without fear of sudden increase.

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## Background

The economy is growing again. Persistent weakness in the job market is likely to keep households and businesses from aggressively increasing their spending, but the environment has improved markedly in recent months. Home sales and construction activity remain well below typical levels. Inventories of existing homes remain high as additional foreclosed properties are put on the market. Demand for commercial space has been depressed by job losses and consumer constraint. In summary, the commercial, multifamily and single-family property markets remain fragile and relatively vulnerable to further economic weakness.

MBA continues to believe that current economic conditions call for caution with respect to any tax changes that could harm consumers and the economy. The tax system should foster sustainable economic growth in the real estate finance industry and all market sectors.

## Principles of Reform

- Tax policies should support home ownership and promote affordable rental housing.
- For owners of commercial real estate, it is critical that tax policies be consistent and stable, guarding against unanticipated losses due solely to changes in tax treatment.
- The tax code should encourage the attraction of capital to businesses that are the primary source of future economic growth, including the housing and real estate finance industries.
- In approving changes to the existing tax structure, MBA is conscious of the existing deficit and high national debt. Tax changes need to be made in a conscientious manner to meet the twin objectives of balancing the budget and creating an environment that supports economic growth.

For more information, visit [www.mortgagebankers.org](http://www.mortgagebankers.org) or call (202) 557-2700.



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## Action Needed

### Stimulate New Jobs and Economic Expansion

- MBA supports tax initiatives that foster new job creation.
- MBA supports a reduction in corporate income tax rates, as this would lead to increased global competitiveness for U.S. companies and would result in increased employment. MBA supports reductions of capital gains taxes and making these tax cuts permanent. Reductions in capital gains taxes would spur investment activity, create jobs and expand the overall economy.
- MBA supports measures that simplify or reduce the Alternative Minimum Tax for individuals and corporations.

### Support Home Ownership

- MBA supports preserving the existing deductibility of residential mortgage interest expenses and state and local real estate taxes.
- MBA supports extending and making permanent the law that allows low- and middle-income homebuyers to deduct their mortgage insurance premiums. This benefits first time homebuyers who generally buy their first home with less than a 20 percent downpayment. This law is currently scheduled to expire at the end of 2011.
- MBA supports continued lender access to borrower tax returns to assist in underwriting new mortgage loans. MBA requests that the Internal Revenue Service (IRS) allow e-signatures on Form 4506 to facilitate quick processing of tax return requests for new mortgage transactions and loan modification programs.

### Support Affordable Rental Housing and the Flow of Capital to All Real Estate Markets

- MBA opposes any legislative initiatives that would tax carried interest as ordinary income. The tax code currently allows the entrepreneur in commercial property transactions to earn fees at the lower capital gains tax rate. This adds an incentive that attracts more capital to this industry segment.
- The Low-Income Housing Tax Credit (LIHTC) should be preserved and revised to eliminate the bias toward non-profit sponsors and to encourage mixed-income developments. The LIHTC and Federal Housing Administration (FHA) insurance program requirements should be changed to allow better coordination of the programs.
- The flexibility and broad applicability of the like-kind exchange rule should be preserved. This preserves the ability of property owners to exchange similar properties without them being classified as a sale for tax purposes. This is an important tool that can help property owners rebalance their commercial real estate portfolios to better meet the product category or geographic concentration objectives.
- The current entity-level tax treatment of pass-through entities should be preserved including real estate investment trusts (REITs), REMICs, S Corporations, limited liability companies (LLCs) and limited liability partnerships (LLPs). This will promote the flow of capital into the real estate and small business segments of the economy.

### Avoid Punitive Taxes that May Thwart Recovery of the Mortgage-Backed Securities Market

- Policymakers continue to consider a tax on stock and bond transactions. Such a financial transaction tax would burden buyers and sellers of mortgage-backed securities and would inevitably make real estate transactions more expensive. MBA opposes any legislation that would impose additional taxes on financial transactions.